

EASTERN EUROPEAN PROPERTY FUND LIMITED



Report and Financial Statements
For the period ended 31 December

07

Investment Objective

The investment objective of Eastern European Property Fund Limited (the “Company”) and its subsidiaries (together the “Group”) is to provide Shareholders with a high level of income and the potential for significant capital growth by investing in property in the major urban centres of Turkey, Romania, Bulgaria and the Ukraine (the “Target Countries”).

Investment Policy

The Group invests in a range of office, retail, industrial and residential properties in the Target Countries. The Group will primarily seek to invest in income-producing properties that also offer potential for significant capital growth in or around major urban centres in the Target Countries. The Group’s primary policy will be to purchase existing properties, including properties in need of refurbishment or renovation.

The Group may also invest in the construction and development, renovation or refurbishment of properties, either wholly owned by the Company or in conjunction with other investors.

Risk Warnings

Please refer to the Admission Document for details of the risk warnings.

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www.eepfl.com

A closed-ended investment company, incorporated under The Companies (Guernsey) Laws, 1994 to 2001.
REGISTERED IN GUERNSEY No. 44424

Highlights

- Property valued by DTZ Debenham Tie Lung at £24.9 million, an increase of 16%.
- Net asset value at 31 December 2007 of £23.7 million, 118.69p per share, an increase of 6% from 31 March 2007.
- Total return (NAV plus dividend paid) for the nine months ended 31 December 2007 of 9% – an annualised increase of 12%.
- Profit for the nine months ended 31 December 2007 of £1.4 million, equal to 6.85p per share.
- Five year loan facility of US\$17.5 million with HSBC Bank plc agreed on 18 December 2007 and drawn down on 19 December 2007.



Chairman's Statement

I am pleased to present the Report and Financial Statements of the Company for the period from 1 April 2007 to 31 December 2007.

Results

The Company generated a net profit for the nine month period ended 31 December 2007 of £1.4 million (*thirteen month period ended 31 March 2007: £3.3 million*), representing a profit per Ordinary Share of 6.85p (*31 March 2007: 16.55p*). The consolidated net asset value at 31 December 2007 was £23.7 million, 118.69p per Ordinary Share (*31 March 2007: £22.4 million – 112.01p per Ordinary Share*). The Group achieved a total return (NAV plus dividend paid) for the nine months ended 31 December 2007 of 9% – an annualised increase of 12%.

Despite the Company's strong performance during the period, the price of the Ordinary Shares has suffered from current market conditions, falling 3.75p during the period to 94.00p at 31 December 2007. As a result, the discount to net asset value widened during the period. After the year end the share price fell further and at 1 May 2008 it stood at 69.25p.

During the period the Company acquired one property (after the funding was arranged), a small building on Asmalimescrit Street adjacent to the Oriental Passage. The Company mainly utilised its funds to try to maximise the value of its existing properties through further refurbishment. This has proved to be a profitable strategy with the fair value of the Company's properties increasing by £3.4 million, an uplift of £1.9 million during the period, excluding additions to costs and foreign exchange movements.

In line with the Admission Document, the Company did not hedge the exchange rate risk, which increased the Company's profit for the period by £0.4 million.

Dividend

On 6 August 2007 the Board declared an interim dividend of 3.20p per Ordinary Share for the period ended 31 March 2007. This dividend was paid on 16 November 2007. The Board carefully considered the payment of a dividend for the period ended 31 December 2007. However, as the Ordinary Shares are currently trading at a 42% discount to the 31 December 2007 net asset value, it was decided that these funds could be better utilised by buying back shares to try to narrow the discount of the share price to net asset value. In the event that the Company is unable to repurchase shares

in the market at a suitable discount, the Board will reconsider the payment of a dividend in respect of this period.

Change of Nominated Adviser and Broker

On 12 October 2007 the Company appointed Smith & Williamson Corporate Finance Limited as Nominated Adviser and Liberum Capital Limited as Broker.

Loan Facility

The Company has invested all of its available equity, and therefore, in order to take advantage of the strong property market in Turkey, the Company sought a loan facility during the period. On 18 December 2007, HSBC Bank plc made available to the Company's two Turkish subsidiaries two loan facilities totalling US\$17,500,000 which were drawn down on 19 December 2007 and are to be repaid at the end of five years from drawdown.

Raising Further Equity

Due to the "credit crunch" it has proven difficult to raise funds, especially when related to property. However, in order to take advantage of the opportunities that exist in the Eastern European property markets, the Board and its advisers continue to explore ways to increase the equity base of the Company.

Outlook

The Directors' visit to Turkey during the period to inspect the Company's Turkish properties reinforced our opinion that the Turkish property market appears to be buoyant and that excellent opportunities still exist to acquire further properties in prime locations. The Bulgarian, Romanian and Turkish property markets have not suffered the same recent downturn as the UK property market and the Board and its advisers are cautiously optimistic that the Company's property portfolio will continue to perform strongly for the remainder of 2008.

Charles Parkinson

Chairman

1 May 2008

Property Manager and Adviser's Report

Strategy

During the period from 31 March to 31 December 2007, the Company continued to consolidate its holdings, finish existing projects and lease its properties, with average yields in excess of 9% being achieved on the total cost. We have continued to build an Investment Portfolio based on the sound quality of the locations and added value in the creation of the finished properties.

To-date the Company has predominately concentrated on Turkey and in particular an area of Pera in and around Istiklal Street in Beyoglu, Istanbul. The street has a footfall believed to be in excess of one million people every day and the surrounding area is attracting major international retailers and prominent office occupiers, some of whom the Company has managed to attract as tenants to its properties.

The basis behind this current focus is to take advantage of the opportunities that have been available to-date to build a core part of the Portfolio in the central retail and leisure district of one of the world's major cities, which still has substantial opportunity for rental and capital growth for real estate in the immediate future.

The other holdings within the portfolio reflect the wish to incorporate some spread of risk in the Company's portfolio and to provide opportunities for diversification, depending on market conditions throughout the region at any one time. All properties have the benefit of being in excellent locations. A core aspect of the portfolio is that every property has to be in a location that gives it sustainability in terms of its ability to be let and to maintain and grow rent levels in the future.

In addition, the Company looks for property where active management opportunities are available, adding to the potential for capital appreciation. To date it has been very successful in this respect and will continue to maintain this element of the strategy going forward as we seek future acquisitions.

Having successfully put in place loan facilities with HSBC Bank in Turkey in December 2007, as reported in the 30 September 2007 Interim Report and Financial Statements, a number of purchase opportunities are being considered. This has resulted in an immediate small consolidating purchase adjacent to the Oriental Passage, Istanbul. Other deals are being considered across the Portfolio's existing locations and we anticipate progressing these in the coming months. It had been hoped to raise additional funds to enhance opportunities to purchase



larger lot sizes, but this has not been possible at the present time due to the overall global economic conditions and negative perception of property in the UK and the wider market, although these issues have not impacted on the Company's properties at this time.

Property Portfolio

The amount of available space within the portfolio continues to reduce as projects complete. An example of this is the imminent letting of part of 24 George Washington Street, Sofia, to UBB Bank of Sofia.

It is fair to say that the wider real estate market remains cautious about the effect on property values and rents in the target countries due to the global economic conditions. However, there had been no obvious immediate impact on the Company's specific projects at the time of reporting. Indeed local markets are, if anything, becoming more difficult as value expectations remain buoyant. However, the Company has now established a track record in the different localities and has proved that it can proceed for the appropriate 'deal' and a number of opportunities are currently being reviewed. In this respect the Managers and Advisers remain resolute that opportunities are properly appraised and only those that offer the returns required will be taken further.

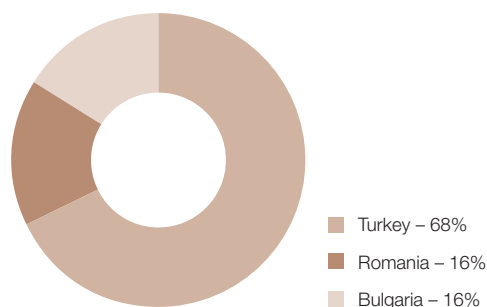
DTZ Debenham Tie Leung revalued the properties at 31 December 2007 at £24.9 million.

Property Manager and Adviser's Report (continued)

Current Holdings

		Market Value	
		31 December 2007	31 March 2007
		£'000	£'000
Bulgaria			
24 George Washington Street, Sofia	Office	3,969	3,421
Romania			
Transalkim Warehouse, S Bucharest	Industrial	3,969	3,285
Turkey			
134-39 Susam Street, Cihangir, Istanbul	Leisure/office/residential	1,940	1,481
6th Floor, The Misir Building, Istiklal Street, Istanbul	Office	1,335	1,192
Ravouna Apartments, 401 Istiklal Street, Beyoglu, Istanbul	Office/retail	2,771	2,226
Oriental Passage, Istiklal Street, Beyoglu, Istanbul	Leisure/office/retail	8,817	8,222
Nil Passage, Istiklal Street, Beyoglu, Istanbul	Leisure/office/retail	1,103	1,016
Pera Residence, Asmalimescrit Street, Beyoglu, Istanbul	Retail	1,032	661
		16,998	14,798
Total investment properties		24,936	21,504

Country Split by Market Value



The properties held at the period end were as follows:-

24 George Washington Street, Sofia, Bulgaria (Office)

This building was finally completed shortly after the year end and although there were considerable delays the quality of the product is excellent and has attracted considerable interest.

The pre-existing Agreement to Lease has been cancelled in favour of a new letting to UBB Bank of Sofia at a higher rent and for a five year term. This lease is due to be signed in the immediate future and will account for approximately 50% of the building.

Transalkim Warehouse, S. Bucharest, Romania (Industrial)

This property remains let to Transalkim at a rental of €460,000 per annum.

134-39 Susam Street, Cihangir, Istanbul, Turkey (Leisure/Office/Residential)

As indicated in the 30 September 2007 Interim Report and Financial Statements this major renovation project was completed in the late summer of last year to a high standard.

The restaurant is now let (completely fitted out), for US\$108,000 per annum and has become one of Istanbul's fashionable destinations.

While consideration was given to selling individual apartments, rent levels have grown such that it was felt more appropriate to retain ownership within the Company. In this respect the top floor was let at the beginning of 2008 for US\$45,000 per annum. The other apartments are now available on a similar basis.

6th Floor, The Misir Building, Istiklal Street, Beyoglu, Istanbul, Turkey (Office)

This property remains let to Electronick and Propaganda whose rents have increased by 17% this year.

Ravouna Apartments, 401 Istiklal Street, Beyoglu, Istanbul, Turkey (Office/Retail)

Despite numerous attempts to negotiate a settlement with the existing tenant, the Company is having to pursue an action through Courts to obtain possession.



All formalities have been completed in respect of conservation and planning matters for this extremely well located and attractive building in order for proceedings to be taken forward positively.

Capital appreciation has occurred as rental values on Istiklal Street rise.

Oriental Passage (also known as the Markiz Passage), Istiklal Street, Beyoglu, Istanbul (Leisure/Office/Retail)

The building is anchored by Roberts (coffee shop) and Darty (electrical retail) but has a number of other tenants, who collectively pay a rent currently in excess of US\$800,000 per annum. The remaining space in the building attracts interest and the target rental value is in excess of US\$1.2 million.

Nil Passage, Asmalimescrit Street, Beyoglu, Istanbul, Turkey (Leisure/Office/Retail).

The Company continues to pursue other potential purchases in this block as part of its longer term ambitions to combine this property with the Oriental Passage. It has recently purchased another adjoining property for US\$350,000 which forms part of the consolidation process for the street.

Pera Residence, Asmalimescrit Street, Beyoglu, Istanbul, Turkey (Retail)

The new tenant, Northshields, has now fitted out this bar restaurant to a very high standard and it has immediately

become one of the most popular locations in the Pera district. The rent is US\$165,000 per annum.

Regional Overview

Bulgaria

Economic forecasts suggest that Bulgaria's inflation will slow this year and take a further dip in 2009, to circa 6%. The country's year-on-year inflation stood at 12.5% at the end of January 2008. The Bulgarian Lev (BGN) is fixed to the Euro, thus limiting monetary policy. A flat 10% income tax rate (the lowest in Europe) has come into force in Bulgaria since 1 January and is expected to be very beneficial for the economy.

The strong office rents in central Sofia have been sustained at €15 per m² plus, due to a lack of supply of class A stock.

Romania

In February, Romania's annual inflation rose to 8%, its highest level in almost two years, and is expected to peak at 8.5% according to analysts' forecasts. This has put further pressure on the national bank to raise borrowing costs.

The central bank has forecast 2008 inflation at 5.9%, well above this year's 2.8% – 4.8% target range. The national bank's local Leu reference interest rate continues to rise, however, most big ticket items, such as real estate and cars,

Property Manager and Adviser's Report *(continued)*

are denominated in Euros. The trade deficit has however stabilised due to the local currency depreciation.

The interest shown by both multinational and domestic companies to situate their head quarters in modern buildings in Bucharest has reduced the availability of commercial stock for Class A office space to 0.02% – an all time low, according to the real estate consulting company Colliers International. Anecdotal evidence suggests that similar interest in the industrial sector is driving up rental values in both secondary and prime sectors as the quality of existing stock is very variable from a western perspective.

Political disputes continue between the President and Parliamentary Ministers but this seems to have little impact on general economic activity.

Turkey

Since the elections returning the A.K. (party) last year and following the stand off with the military earlier in the year, the Government has strengthened its position. However, despite being returned by a majority based on their strong economic performance and commitment to pursue E.U. reforms, the Judiciary and Secularists are now challenging the A.K. (party) and seeking to ban both the party and a number of party members, including the Prime Minister and President.

This is likely to press the Prime Minister to accelerate EU inspired reforms and to reform the constitution but political uncertainty remains. Other challenges have been made relating to the issue of foreign ownership of property, but this seems to be a case of 'tightening up' weak drafting in the 'laws' and attacking other countries' nationals who invest where there are no reciprocal arrangements.

The economic forecast for Turkey is that growth will slow to 4.5% GDP during this year. While there is a risk of contagion in the property market this has not been affected at the present time.

Property rental levels continue to rise and yields for properties continue to decrease. However, actual transaction evidence is difficult to ascertain with any sense of reliability.

The Turkish lira has remained remarkably resilient, although it has weakened recently due to political concerns and the potential slowdown of foreign direct investment.

Prospects

Both Bulgaria and Romania still have historical bureaucratic issues that affect the completion of contractual matters, but





opportunities remain, providing local knowledge and contacts are exploited.

Despite the political uncertainty in Turkey the general economy remains buoyant and indeed some 'negative' sentiment would help to slow down the valuation expectations of property sellers. This would help, at the present time, to shorten the often tortuous negotiations over price.

The Company has built a resilient and attractive property portfolio and has established that it can perform. Although we would prefer to make greater progress through larger acquisitions, the Company still has enough scope to broaden its property base and increase overall returns in the existing target markets through organic growth. This is against a backdrop of similarly aged listed companies in the region who have failed to live up to expectations.

It is disappointing that the market fails to discriminate between different company strategies and actual performance. We

believe that, with shareholder support, the Company can grow very successfully and deliver both income and capital growth, as indicated in its investment objective.

Bob Locker

*CNC Property Fund Management Limited
(formerly Collins Stewart Property Fund Management Limited)*

Keiran Gallagher

Oliver Cadogan

Active Property Investments Limited

1 May 2008

Report of the Directors

We are pleased to present the Report and Financial Statements of the Group for the period from 1 April 2007 to 31 December 2007.

Status and Activities

The Company was incorporated on 27 February 2006 as a closed-ended investment company registered under the provisions of The Companies (Guernsey) Laws, 1994 to 2001. On 23 March 2006 the Group raised gross proceeds of £20.0 million (net proceeds of £19.1 million) through the issue of 20,000,000 Ordinary Shares at 100.00p each, with the Ordinary Shares being admitted to trading on AIM, a market operated by the London Stock Exchange. The Company received consent from the Guernsey Financial Services Commission under the Control of Borrowing (Bailiwick of Guernsey) Ordinances, 1959 to 1989 for the issue of the Admission Document and the associated raising of funds.

The Group's objective is to provide Shareholders with a high level of income and potential for significant capital growth by investing in property in the major urban centres of Turkey, Romania, Bulgaria and the Ukraine (the "Target Countries").

Change of year end

During the period the Board resolved to change the year end from 31 March to 31 December as the majority of its subsidiaries are required by local law to prepare their accounts to 31 December. Thus, the comparative amounts shown in the Consolidated Income Statement, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes are not comparable.

Results

During the period the Group continued to refurbish and renovate its investment property portfolio, which has been valued by DTZ Debenham Tie Leung at £24.9 million (31 March 2007: £21.5 million). Details of these properties are set out in the Property Manager and Adviser's Report on pages 3 to 7. It is pleasing to report that the valuation of our portfolio resulted in a gain of £1.9 million (31 March 2007: £4.6 million) and that at 31 December the market value of the properties was £6.9 million above the cost of £18.0 million.

The Group made a net profit for the period ended 31 December 2007 of £1.4 million (thirteen month period ended 31 March 2007: £3.3 million), representing earnings per Ordinary Share of 6.85p (31 March 2007: 16.55p). The consolidated net asset value at 31 December 2007 was £23.7 million

(31 March 2007: £22.4 million), 118.69p per Ordinary Share (31 March 2007: 112.01p).

Share Capital

Pursuant to the authority granted on 13 March 2006, the Company has authority to buy back up to 14.99% of the Ordinary Shares issued at the original placing for cancellation. No Shares were purchased for cancellation during the period. The Company intends to seek to renew the necessary authorities to buy back Ordinary Shares at the forthcoming Annual General Meeting.

A resolution enabling the Company to purchase up to 10% of the Ordinary Shares in issue and hold them as treasury shares was passed at the first annual general meeting, enabling the Board to exert a positive influence, as and when deemed appropriate, over the level of discount to net asset value, at which the Ordinary Shares trade.

Dividends

The majority of the Group's income in its second accounting period was absorbed by its operating costs as the Group was in the process of refurbishing and renovating a number of its properties and thus no rental income was received on these. Taking account of the unrealised gain on revaluation of investment properties, the Group achieved an overall profit for the period of £1.4 million (thirteen month period ended 31 March 2007: £3.3 million). On 20 July 2007, the Board announced an interim dividend for the period ended 31 March 2007 of 3.20p per Ordinary Share which was paid on 16 November 2007. The Board carefully considered the payment of a dividend for the period ended 31 December 2007. However, as the Ordinary Shares are currently trading at a 42% discount to the 31 December 2007 net asset value, it was decided that these funds could be better utilised by buying back shares to try to narrow the discount of the share price to net asset value. In the event that the Company is unable to repurchase shares in the market at a suitable discount, the Board will reconsider the payment of a dividend in respect of this period.

The Directors do not propose a final dividend for the period ended 31 December 2007 (31 March 2007: nil).

Financing

The Group had invested all of its available equity, and therefore, in order to take advantage of the strong property market in Turkey, the Group sought a loan facility during the period. On 18 December 2007, HSBC Bank plc made

available to the Company's two Turkish subsidiaries two loan facilities totalling US\$17,500,000 which were drawn down on 19 December 2007 and are to be repaid at the end of five years from drawdown.

On 9 November 2007, HSBC Bank plc made available to the Company an overdraft facility for £1.0 million. Interest on the facility was charged at 1.5% over the Bank of England base rate. Elysium Fund Management Limited gave a guarantee to HSBC securing all liabilities of the Company to HSBC. This guarantee was rescinded and the overdraft facility was terminated when the Group drew down funds from its bank loans (see note 19).

Property

The Group spent an additional £1.1 million renovating its properties during the period. The properties were independently valued, by DTZ Debenham Tie Leung at £24.9 million as at 31 December 2007 (31 March 2007: £21.5 million). Further details of the properties are given in the Property Manager and Adviser's Report on pages 3 to 7.

Material Contracts

The Company's material contracts are with Elysium Fund Management Limited ("Elysium") which acts as Administrator, Manager and Secretary, Smith & Williamson Corporate Finance Limited, which acts as Nominated Adviser, Liberum Capital Limited, which acts as Broker, Collins Stewart (CI) Limited, which acts as Custodian, Capita Registrars (Guernsey) Limited, which acts as Registrar and HSBC Bank plc, the Group's principle bankers.

Elysium is entitled to receive a quarterly management fee and an annual performance fee from the Group, details of which are disclosed in note 3.

The Manager has entered into a contract for services with both an Investment Adviser and a Property Manager, Active Property Investments Limited and CNC Property Fund Management Limited ("CNC") (formerly Collins Stewart Property Fund Management Limited) respectively. All costs for services provided by both the Investment Adviser and the Property Manager are borne by the Manager.

Appointment of the Manager, Property Manager and Investment Adviser

The Directors believe that the Manager, Property Manager and Investment Adviser performed creditably during the financial period. In the opinion of the Directors, it is in the interests of

the Company to retain the services of Elysium, CNC and Active Property Investments Limited.

Change of Nominated Adviser and Broker

On 12 October 2007 the Company appointed Smith & Williamson Corporate Finance Limited as Nominated Adviser and Liberum Capital Limited as Broker and Collins Stewart Europe Limited resigned as Nominated Adviser and Broker.

Taxation

The Company has been granted exemption from Guernsey taxation under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is currently charged an annual exemption fee of £600. The Directors intend to conduct the Company's affairs such that it continues to remain eligible for exemption from Guernsey tax.

The subsidiaries of the Company are liable to taxation under the taxation laws of the countries in which they are incorporated.

Future Prospects

The Board and its advisers believe that the Company will meet its investment objectives and that the growth of the Group can be maintained over the coming year. Further details are given in the Property Manager and Advisers' Report.

Directors

The present members of the Board are listed on the inside back cover of this report.

At 31 December 2007 the Directors' interests in the Ordinary Shares of the Company were as follows:

	<i>Ordinary Shares</i>
Charles Parkinson	10,000
Carol Goodwin	–
Hugh Ward	15,000
Richard Barnes	–

There were no changes in the interests of Directors between 31 December 2007 and 1 May 2008.

There are no service contracts in place between the Company and the Directors.

Report of the Directors (continued)

Substantial Interests

As at 7 April 2008, the following interests of 5% or more of the issued Ordinary Share Capital had been notified to the Company:

<i>Funds managed by:</i>	<i>Number of Ordinary Shares held</i>	<i>% of share capital</i>
HBOS	5,485,000	27.43%
Collins Stewart	3,739,900	18.70%
Charles Stanley	1,485,900	7.43%
Rathbone	1,314,500	6.57%
Credit Suisse	1,281,440	6.41%

Going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Group. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Corporate Governance

As a Guernsey incorporated company and under the AIM Rules for companies, the Company is not required to comply with the Combined Code published by the Financial Reporting Council (the "2006 FRC Code"). The Board has however put in place a framework for corporate governance which it believes is suitable for a property investment company and which enables the Company to voluntarily comply with the main requirements of the 2006 FRC Code, which sets out principles of good governance and a code of best practice.

The Board considers that the Company has complied with the provisions contained within the 2006 FRC Code throughout this accounting period, except where indicated below. The following statement describes how the relevant principles of governance are applied to the Company.

The Board

The Board currently consists of four non-executive Directors, all of whom are independent. As the Chairman of the Board is an independent non-executive director, the Board does not consider it necessary to appoint a senior independent director.

The Company has no executive directors and no employees. However, the Board has engaged external companies to undertake the management, advisory, administrative and custodial activities of the Company and the production of the Annual Report and Financial Statements which are independently audited. Clear documented contractual arrangements are in place between these firms that define the areas where the Board has delegated responsibility to them. Whilst the Board delegates responsibility, it retains accountability for the functions it delegates and is responsible for the systems of internal control.

The Board meets at least four times a year and between these formal meetings there is regular contact with the Manager and the Secretary. The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Company and should be brought to the attention of the Directors. The Directors also have access to the Secretary and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

	<i>Total Meetings</i>	<i>Quarterly Board Meetings</i>	<i>Ad hoc Board Meetings</i>	<i>Audit Committee Meetings</i>	<i>Other Committee Meetings</i>
Charles Parkinson	12/13	3/3	5/6	3/3	1/1
Carol Goodwin	12/13	3/3	5/6	3/3	1/1
Hugh Ward	7/13	2/3	3/6	2/3	0/1
Richard Barnes	10/13	3/3	4/6	3/3	0/1

The Board has a breadth of experience relevant to the Company, and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new appointment of a Director to the Board, consideration will be given as to whether a formal induction process is appropriate.

The Board considers Agenda Items laid out in the Notice and Agenda which are formally circulated to the Board in advance of a meeting as part of the Board Papers and therefore Directors may request any Agenda Items to be added that they consider appropriate for Board discussion. Additionally, each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussion.

All members of the Board are expected to attend each Board meeting and to arrange their schedules accordingly, although non-attendance is unavoidable in certain circumstances. The table below details the number of formal meetings attended by each Director in the period.

The primary focus at Board Meetings is a review of individual property investments and returns, country exposure, the overall portfolio performance and associated matters such as gearing and pipeline investment opportunities. Additionally a strong focus of attention is given to marketing/investor relations, risk management and compliance, peer group information and industry issues.

The Board is currently engaged in a review of the Company's strategy with the Manager, Property Manager, Investment Adviser and Broker to ensure the employment of appropriate strategies under prevailing market, political and economic conditions at any particular time, within the overall investment restrictions of the Group.

The Board evaluates its own performance and considers the tenure of each Director on an annual basis and believes that the mix of skills, experience, ages and length of service are appropriate to the requirements of the Company.

Board Responsibilities

The Directors have adopted a set of Reserved Powers, which establish the key purpose of the Board and detail its major duties. These duties cover the following areas of responsibility:

- Statutory obligations and public disclosure;
- Strategic matters and financial reporting;
- Oversight of management and personnel matters;

- Risk assessment and management, including reporting, monitoring, governance and control; and
- Other matters having material effects on the Company.

These Reserved Powers of the Board have been adopted by the directors to clearly demonstrate the seriousness with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

Committees of the Board

The Board has not deemed it necessary to appoint a nomination or remuneration committee as, being comprised wholly of non-executive Directors, the whole Board considers these matters.

Audit Committee

An Audit Committee has been established comprising the full Board of the Company with Carol Goodwin as its Chairman. The Audit Committee examines the effectiveness of the Group's internal control systems, the annual report and accounts and interim report, the auditors' remuneration and engagement, as well as the auditors' independence and any non-audit services provided by them. The Audit Committee receives information from the Administrator, the Secretary and the external auditors. The Audit Committee meets at least twice a year to review the annual accounts, interim accounts and audit timetable and other risk management and governance matters. A copy of the Audit Committee Terms of Reference is available upon request from the Secretary.

Internal Controls

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place for the period under review and up to the date of approval of this Annual Report and Accounts. In line with general market practice for investment companies, the Directors do not conduct a formal annual review of the internal controls. However, the Board does conduct an annual review of the financial reporting procedures and corporate governance controls and feels that the procedures employed by the service providers adequately mitigate the risks to which the Group is exposed.

Report of the Directors (continued)

The key procedures which have been established to provide effective internal controls are as follows:

- Elysium is responsible for the provision of management, administration and company secretarial duties.
- The duties of Property Manager and the custody of assets are segregated. The procedures are designed to complement one another.
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts.
- The Board reviews financial information produced by the Property Manager and the Manager on a regular basis.
- The Group does not have an internal audit department. All of the Group's management functions are delegated to independent third parties and it is therefore felt that there is no need for the Group to have an internal audit facility.
- On an ongoing basis compliance reports are provided at each board meeting by the Administrator.

The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

Relations with Shareholders

The Property Manager maintains a regular dialogue with major shareholders, the feedback from which is reported to the Board. In addition, Board members will be available to respond to Shareholders' questions at the Annual General Meeting.

The Board monitors the trading activity and Shareholder profile on a regular basis and maintains contact with the Company's broker to ascertain the views of Shareholders. Shareholder sentiment is also ascertained by the careful monitoring of the premium/discount that the shares are traded in the market when compared to those experienced by similar companies. Major Shareholders are contacted directly by the Broker, Property Manager and Investment Adviser on a regular basis.

The Group reports formally to Shareholders twice a year and a proxy voting card is sent to Shareholders with the Annual Report and Financial Statements. Additionally, current information is provided to Shareholders on an ongoing basis through the Group website. The Registrar monitors the voting of the Shareholders and proxy voting is taken into consideration when votes are cast at the Annual General Meeting. Shareholders may contact the Directors via the Company Secretary.

Litigation

The Group is not engaged in any litigation or claim of material importance, nor, so far as the Directors are aware, is any litigation or claim of material importance pending or threatened against the Group.

Auditors

KPMG Channel Islands Limited has expressed their willingness to act as Auditors to the Company and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Payment to Creditors

Amounts due to suppliers and service providers are settled promptly within the terms of the payment, except in cases of dispute.

Financial Risk Profile

The Group's main assets are its freehold investment properties. Its financial assets comprise cash, loans and various items such as debtors and creditors that arise directly from the Group's operations. The main purpose of these instruments is the investment of Shareholders' funds.

The main risks are market price, liquidity, withdrawal of credit and foreign currency risks. Further details are given in note 25 to the financial statements.

Possible adverse economic and political conditions

The financial operations of the Group may be adversely affected by general economic conditions and particularly by economic conditions in the Target Countries. The returns that are likely to be achieved on an investment in property or land in the Target Countries will be materially affected by the political and economic climate in Eastern Europe, particularly in the Target Countries. In particular, changes in the rates of inflation and interest rates in the Target Countries may affect the income generated by, and capital value of, the Property Portfolio.

The property and land markets in which the Group invests are relatively immature and the economies of the Target Countries are not as fully developed as those in Western Europe. Further, those countries carry risks of political, legal and economic instability, which could adversely affect the Group's results or operations. With any investment in a foreign country there exists the risk of adverse political or regulatory developments including, but not limited to, nationalisation, confiscation without fair compensation, terrorism, war or currency restrictions. The latter may be imposed to prevent capital flight and may make it difficult or impossible to exchange local currency into foreign currency or to repatriate foreign currency.

Further, deterioration in the Western European economies can be expected to have an adverse effect on the economies of the Target Countries and potentially on property values and the level of rents in the Target Countries.

Directors' Responsibilities

The Directors are responsible for preparing financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the Group for that period and of the profit or loss of the Group and are in accordance with applicable laws. In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 1994, as amended. They are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board.

Charles Parkinson	Richard Barnes
<i>Director</i>	<i>Director</i>

1 May 2008

1 May 2008

Independent Auditor's Report

to the Members of Eastern European Property Fund Limited

We have audited the Group financial statements (the 'financial statements') of Eastern European Property Fund Limited for the period ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flow and the related notes. These financial statements have been prepared under the accounting policies set out herein.

This report is made solely to the Company's members, as a body, in accordance with section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable Guernsey Law and International Financial Reporting Standards (IFRS) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with The Companies (Guernsey) Law, 1994. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements;

- give a true and fair view in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at 31 December 2007 and of the Group's and Company's profit for the period from 1 April 2007 to 31 December 2007; and
- have been properly prepared in accordance with The Companies (Guernsey) Law, 1994.

KPMG Channel Islands Limited

Guernsey, Channel Islands

1 May 2008

Consolidated Income Statement

for the period from 1 April 2007 to 31 December 2007

	Note	1 April 2007 to 31 December 2007 £'000	27 February 2006 to 31 March 2007 £'000
Income			
Rent receivable		573	69
Bank interest receivable		80	614
Movement in unrealised gain on revaluation of investment properties	11	1,931	4,559
Total income		2,584	5,242
Expenses			
Administrator's fees	3	(94)	(128)
Management fees	3	(295)	(340)
Performance fee	3	(256)	(241)
Other operating expenses	6	(509)	(392)
Loss on foreign currency exchange		(305)	(2)
Total expenses		(1,459)	(1,103)
Net profit from operating activities		1,125	4,139
Taxation	17	245	(829)
Profit for the period		1,370	3,310
Earnings per share – basic and fully diluted	7	6.85p	16.55p

All the items in the above statement are derived from continuing operations.

The accompanying notes on pages 19 to 48 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the period from 1 April 2007 to 31 December 2007

	Note	Share capital £'000	Distributable reserves £'000	Non-distributable reserves £'000	Foreign exchange translation reserve £'000	Total £'000
Net assets at 31 March 2007		200	18,223	3,978	–	22,401
(Loss)/profit for the period		–	(10)	1,380	–	1,370
Foreign exchange movement		–	–	–	606	606
Dividends paid	8	–	(640)	–	–	(640)
Net assets at 31 December 2007		200	17,573	5,358	606	23,737

Consolidated Statement of Changes in Equity

for the period from 27 February 2006 to 31 March 2007

	Note	Share capital £'000	Share premium £'000	Distributable reserves £'000	Non-distributable reserves £'000	Total £'000
Gross proceeds of placing	20	200	19,800	–	–	20,000
Issue costs	20	–	(909)	–	–	(909)
Cancellation of share premium account	20	–	(18,891)	18,891	–	–
(Loss)/profit for the period		–	–	(668)	3,978	3,310
Net assets at 31 March 2007		200	–	18,223	3,978	22,401

The accompanying notes on pages 19 to 48 form an integral part of these financial statements.

Consolidated Balance Sheet

as at 31 December 2007

	Note	31 December 2007 £'000	31 March 2007 £'000
Non-current assets			
Freehold investment property	11	24,936	21,504
Property, plant and equipment	10	196	73
Advances for fixed assets		28	–
Intangible assets	9	13	15
Deferred tax assets	18	148	161
		25,321	21,753
Current assets			
Trade and other receivables	14	1,888	759
Tax assets		14	–
Cash and cash equivalents		8,008	1,364
		9,910	2,123
Total assets		35,231	23,876
Current liabilities			
Trade and other payables	15	(1,869)	(446)
Overseas corporate tax		(89)	(89)
		(1,958)	(535)
Non-current liabilities			
Rents received in advance	16	(166)	(72)
Deferred tax liabilities	16, 18	(621)	(868)
Bank loans	16, 19	(8,749)	–
		(9,536)	(940)
Total liabilities		(11,494)	(1,475)
Net assets		23,737	22,401
Capital and reserves			
Called-up share capital	20	200	200
Share premium	20	–	–
Distributable reserves		17,573	18,223
Non-distributable reserves		5,358	3,978
Foreign exchange translation reserve		606	–
Total equity Shareholders' funds		23,737	22,401
Net Asset Value per Ordinary Share – basic and fully diluted	22	118.69p	112.01p

The financial statements on pages 15 to 48 were approved by the Board of Directors on 1 May 2008 and were signed on its behalf by

Charles Parkinson
Director

Richard Barnes
Director

1 May 2008

1 May 2008

The accompanying notes on pages 19 to 48 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the period from 1 April 2007 to 31 December 2007

Note	1 April 2007 to 31 December 2007 £'000	27 February 2006 to 31 March 2007 £'000
Net profit from operating activities	1,125	4,139
Adjustments for:		
Interest receivable	(80)	(614)
Gain on revaluation of investment properties	(1,931)	(4,559)
Loss on foreign currency exchange	305	2
Depreciation and amortisation	26	5
Net cash outflow from operating activities before working capital changes	(555)	(1,027)
Increase in trade and other receivables	(528)	(757)
Increase in other payables	364	446
Increase in other non-current liabilities	94	72
Interest received in the period	60	610
Interest paid in the period	(2)	–
Tax paid in the period	(6)	(33)
Net cash outflow from operating activities	(573)	(689)
Investing activities		
Acquisition and development of investment property	(2,193)	(16,974)
Purchase of intangible assets	–	(15)
Purchase of property, plant and equipment	–	(78)
Net cash outflow from investing activities	(2,193)	(17,067)
Financing activities		
Dividends paid	(640)	–
Loan proceeds	8,784	–
Loan arrangement fees	(75)	–
Loan received from Manager	100	–
Repayment of loan from Manager	(100)	–
Issue of shares	–	20,000
Share issue costs	–	(909)
Net cash inflow from financing activities	8,069	19,091
Increase in cash and cash equivalents	5,303	1,335
Cash and cash equivalents at beginning of period	1,364	–
Increase in cash and cash equivalents	5,303	1,335
Foreign exchange movement	1,341	29
Cash and cash equivalents at end of period	8,008	1,364

The accompanying notes on pages 19 to 48 form an integral part of these financial statements.

Notes to the Financial Statements

for the period from 27 February 2006 to 31 December 2007

1. Significant accounting policies

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and applicable legal and regulatory requirements of Guernsey Law and reflect the following policies, which have been adopted and applied consistently.

The consolidated financial statements were authorised for issuance on 1 May 2008.

b) Basis of preparation

The consolidated financial statements have been prepared on a fair value basis for investment properties. Bank loans are stated at amortised cost. The financial statements are presented in Sterling, rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes 11 and 25.

c) Basis of consolidation

The financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2007. The results of the subsidiary undertakings are accounted for in the Consolidated Income Statement from the date the subsidiaries were formed (the subsidiaries have only been owned by the Company).

Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Where properties are acquired by the Group through corporate acquisitions and there are no significant assets or liabilities acquired other than the property, the acquisition has been treated as an asset acquisition.

All intercompany balances and transactions are eliminated.

d) Income recognition

Bank interest

Short-term deposit interest is accounted for on an accruals basis.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

Rental income

Rental income from investment property rented under operating leases is recognised through the Consolidated Income Statement on a straight-line basis over the period commencing on the later of the start of the lease or acquisition of the property by the Group, and ending on the earlier of the end of the lease and the next break point, unless it is reasonably certain that the break option will not be exercised. Rental income revenue excludes service charges and other costs directly recoverable from tenants. Direct costs of rental income comprise head rents payable, irrecoverable service charge costs and other property outgoings. Rental income is included gross of any foreign income tax charged.

e) Expenses

All expenses are accounted for on an accruals basis. The management, performance and administration fees, finance costs and all other expenses (with the exception of share issue costs, which are charged directly to the share premium account and bank loan arrangement fees, which are deducted from the carrying amounts of the loans) are charged through the Consolidated Income Statement in the period in which they are incurred.

f) Intangible assets

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in the Consolidated Income Statement on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful lives of the current period are as follows:

Trade mark	15 years
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The depreciation methods, useful lives and residual values of the intangible assets are reviewed at each reporting date.

g) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is recognised in the Consolidated Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment. The estimated useful lives of the current period are as follows:

Furniture and fixtures	5-10 years
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The depreciation methods, useful lives and residual values of the property, plant and equipment are reviewed at each reporting date.

h) Freehold investment property

Investment property is initially measured at cost, being the fair value of consideration given, including related transaction costs. Additions to investment property consist of costs of a capital nature and, in the case of investment property under development, capitalised interest. After initial recognition, investment property is carried at its fair value. The fair value of the investment property is largely based on estimates using property appraisal techniques and other valuation methods as outlined below. Such estimates are inherently subjective and actual values can only be determined in a sales transaction.

The appraisers determine the fair value by applying the methodology and guidelines as set out in the appropriate sections of both the current Practice Statements and United Kingdom Practice Statements contained within the RICS Appraisal and Valuation Standards, 5th Edition (the "Red Book") and in accordance with IAS 40. This approach is based on discounting the future net income receivable from properties to arrive at the net present value of the future income stream. Future net income comprises the rent secured under existing leases, less any known or expected non-recoverable costs and the current market rent attributable to future vacancy years. The consideration basis for this calculation excludes the effects of any taxes. The discount factors used to fair value are consistent with those used to value similar properties, with comparable leases in each of the respective markets.

All investment properties are valued twice per year by independent appraisers. The last valuation for investment properties carried out by DTZ Debenham Tie Leung was at 31 December 2007.

The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included in the Consolidated Income Statement as a valuation gain or loss.

When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is re-measured to fair value as at the date of the transfer with any gain or loss being taken to the Consolidated Income Statement. The re-measured amount becomes the deemed cost at which the property is then carried in trading properties.

i) Trade and other receivables

Trade and other receivables are carried at the original invoice amount, less allowances made for doubtful receivables. Provision is made when there is objective evidence that the Group will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

j) Trade and other payables

Trade and other payables are carried at payment or settlement amounts. Where the time value of money is material, payables are carried at amortised cost.

k) Taxation

Investment income is recorded gross of applicable taxes and tax expense is recognised in the Consolidated Income Statement as incurred. The property subsidiaries are subject to tax on income arising on the property portfolio, after deduction of allowable expenses. Withholding tax and irrecoverable VAT may also arise on distributions and interest from the subsidiaries.

l) Bank loan arrangement fees

Bank loan arrangement fees are deducted from the carrying amounts of the loans in accordance with IAS 39: Financial Instruments: Recognition and Measurement, and amortised over the period of the loans.

m) Non-current liabilities

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received. After initial recognition, all floating-rate interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on settlement.

n) Deferred taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profit will be available in the foreseeable future against which the deductible temporary differences and unused tax losses can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the relevant tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to apply when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Notes to the Financial Statements (continued)

1. Significant accounting policies (continued)

o) Distributable and non-distributable reserves

Management charges, performance fees, interest charged and unrealised investment gains and losses are allocated to the non-distributable reserve. All other income and expenses, foreign exchange gains and losses and realised investment gains and losses of the Group are allocated to the distributable reserve.

Dividends are accounted for when paid and are reflected in the Consolidated Statement of Changes in Equity.

p) Cash and cash equivalents

Cash in hand and in banks and short-term deposits, which are held to maturity, are carried at fair value. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits at banks but does not include deposits with solicitors.

q) Net asset value per share and earnings per share

The net asset value per share disclosed on the face of the Consolidated Balance Sheet is calculated by dividing the net assets by the number of Ordinary Shares in issue at the period end.

Earnings per share is calculated by dividing the profit for the period by the weighted average number of Ordinary Shares in issue during the period.

r) Issue costs

The placing expenses incurred have been written off in full against the share premium account.

s) Foreign exchange translations

The currency of the primary economic environment in which the Group operates (the functional currency) is deemed to be Sterling as there is no one dominant currency. Sterling is also its presentational currency. Transactions involving currencies other than Sterling are recorded at the exchange rate ruling on the transaction date. At each balance sheet date, monetary items and non-monetary assets and liabilities that are fair valued, which are denominated in foreign currencies are retranslated at the closing rates of exchange.

Exchange differences arising on settlement of monetary and non-monetary items, and from retranslating investments and other monetary items are charged through the Consolidated Income Statement to the distributable reserve.

t) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Sterling at the foreign exchange rates ruling at the balance sheet date. The income and expenses of foreign operations are translated into Sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised as a separate component of equity.

u) Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment in property, and operates in five geographical areas; Guernsey, Bulgaria, Cyprus and Malta, Romania and Turkey.

v) Impairment of intangible assets and property, plant and equipment

The assets or groups of assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists, the Group makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

w) Share capital

Funds received from the issue of Ordinary Shares are allocated to share capital, to the extent that they relate to the nominal value of the Ordinary Shares, with any excess being allocated to the share premium account.

Ordinary Shares are classified as equity.

x) Loans to subsidiary undertakings

Loans to subsidiary undertakings are valued at cost, less allowances made for doubtful receivables. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the Company will be unable to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

The loans to subsidiary undertakings are translated at the relevant foreign exchange rate at the balance sheet date. Exchange differences arising on the settlement or retranslation of the loans to subsidiary undertakings are charged through the Company Income Statement to the distributable reserve.

y) Investment in subsidiary undertakings

The Company's investments in subsidiary undertakings are carried in the Company Balance Sheet at cost, subject to the need for provision for impairment.

Recognition

The Company recognises investments in subsidiary undertakings on the date it commits to purchase the instruments. From this date, any gains and losses arising from the changes in fair value of the assets are recognised.

Derecognition

An investment in a subsidiary undertaking is derecognised when the Company loses control over the contractual rights that comprise that asset. This occurs when rights are realised, expire or are surrendered. Realised gains and losses on the investments in subsidiary undertakings sold are calculated as the difference between the sales proceeds and cost. Investments in subsidiary undertakings that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Company commits to sell the assets. The Company uses the weighted average method to determine realised gains and losses on derecognition.

Notes to the Financial Statements *(continued)*

2. New standards and interpretations not applied

IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

<i>International Accounting Standards (IAS/IFRS)</i>		<i>Effective date</i>
IAS 1 (revised)	Presentation of Financial Statements (revised 2007 and 2008)	1 January 2009
IAS 23	Borrowing Costs (revised 2007)	1 January 2009
IAS 27	Consolidated and separate financial statements (revised 2008)	1 July 2009
IAS 28	Investments in associates (revised 2008)	1 July 2009
IAS 31	Interests in Joint ventures (revised 2008)	1 July 2009
IAS 32	Financial instruments: Presentation (revised 2008)	1 January 2009
IFRS 2	Share-based payment (revised 2008)	1 January 2009
IFRS 3	Business combinations (revised 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
<i>International Financial Reporting Interpretations Committee (IFRIC)</i>		
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, minimum funding requirements and their interaction	1 January 2008

The Directors have chosen not to early adopt the above standards and interpretations but they do not anticipate that they would have a material impact on the Group's financial statements in the period of initial application.

Upon adoption of IFRS 8, the Group will have to disclose additional information about its operating segments, including how the Group identifies its operating segments, and the type of products and services from which each operating segment derives its revenue. There will be no effect on reported income or net assets.

3. Management and administration fees

Elysium Fund Management Limited ("Elysium") is Manager, Administrator and Secretary to the Company, CNC Property Fund Management Limited ("CNC") (formerly Collins Stewart Property Fund Management Limited) is Property Manager and Active Property Investments Limited is the Investment Adviser.

Administration fee

The Group shall pay the Administrator by way of remuneration for its administration and secretarial services hereunder an administration fee of 0.1% of the Gross Asset Value per annum calculated at the close of business at each quarter end, subject to a minimum of £125,000 per annum.

Management fee

Elysium is entitled to receive an annual fee of 1.75% of the Gross Asset Value of the Group. The management fee is payable quarterly in advance.

Performance fee

In addition, Elysium is entitled to a performance fee in certain circumstances. This fee is payable by reference to the increase in Adjusted NAV per Ordinary Share over the course of a 'performance period'. The first performance period began on Admission and ended on 31 March 2007; each subsequent performance period is a period of one financial period. Elysium is entitled to a performance fee in respect of a performance period only if two conditions are met.

First, a performance hurdle condition must be met. The performance hurdle is that the Adjusted NAV per Ordinary Share at the end of the relevant performance period exceeds an amount equal to the Placing Price increased at a rate of 7% per annum on a compounding basis up to the end of the relevant performance period.

The second condition to be met (a 'high watermark' test) is that the Adjusted NAV per Ordinary Share at the end of the relevant performance period is higher than the highest previously recorded Adjusted NAV per Ordinary Share at the end of a performance period, in relation to which a performance fee was last earned (or if no performance fee had been earned since Admission, is higher than the Placing Price).

If the performance hurdle is met, and the high watermark exceeded, the performance fee will be an amount equal to 20% of the excess of the Adjusted NAV per Ordinary Share at the end of the relevant performance period over the higher of (i) the performance hurdle; (ii) the Adjusted NAV per Ordinary Share at the start of the relevant performance period; and (iii) the high watermark (in both cases on a per Ordinary Share basis), multiplied by the time weighted average of the number of Ordinary Shares in issue in the performance period (or since Admission in the first performance period).

The Manager has the benefit of an indemnity from the Group in relation to liabilities incurred by the Manager in the discharge of its duties other than those arising by reason of any fraud, willful default, negligence or bad faith on the part of the Manager or its delegates.

The Manager's appointment as investment manager is terminable by either party on not less than twelve months' notice, such notice to expire at any time on or after the third anniversary of Admission. The Management Agreement may also be terminated by either the Manager or the Group if the other party, or CNC, has gone into liquidation, administration or receivership or has committed a substantial or continuing breach of the Management Agreement.

The Manager is responsible for the payment of the fees of the Investment Adviser and Property Manager.

Notes to the Financial Statements *(continued)*

4. Segmental analysis

Segment information is presented in respect of the Group's geographical segments.

The Group operates in five principal geographic segments, being Guernsey, Bulgaria, Cyprus and Malta, Romania and Turkey. Guernsey is where the primary holding company is registered; it provides loans to the other subsidiaries and receives bank and loan interest and dividend income. The Maltese and Cypriot subsidiaries are investment holding companies and Bulgaria, Romania and Turkey hold investment property.

Income Statement

for the period from

1 April 2007 to 31 December 2007

	<i>Guernsey £'000</i>	<i>Bulgaria £'000</i>	<i>Cyprus & Malta £'000</i>	<i>Romania £'000</i>	<i>Turkey £'000</i>	<i>Total £'000</i>
Rent income receivable	–	–	–	237	336	573
Bank interest receivable	14	25	–	1	40	80
Movement in unrealised gain on revaluation of investment properties	–	39	–	278	1,614	1,931
Total income	14	64	–	516	1,990	2,584
Administrative and other expenses	(863)	(17)	(27)	(85)	(162)	(1,154)
Gain/(loss) on foreign currency exchange	1,455	60	–	43	(1,863)	(305)
Net profit/(loss) from operating activities	606	107	(27)	474	(35)	1,125
Taxation	(92)	22	–	(109)	424	245
Profit/(loss) for the period	514	129	(27)	365	389	1,370

for the period from

27 February 2006 to 31 March 2007

	<i>Guernsey £'000</i>	<i>Bulgaria £'000</i>	<i>Cyprus & Malta £'000</i>	<i>Romania £'000</i>	<i>Turkey £'000</i>	<i>Total £'000</i>
Rent income receivable	–	–	–	49	20	69
Bank interest receivable	579	6	–	25	4	614
Movement in unrealised gain on revaluation of investment properties	–	981	–	378	3,200	4,559
Total income	579	987	–	452	3,224	5,242
Administrative and other expenses	(914)	(5)	(32)	9	(161)	(1,103)
Net (loss)/profit from operating activities	(335)	982	(32)	461	3,063	4,139
Taxation	(20)	(93)	–	(82)	(634)	(829)
(Loss)/profit for the period	(355)	889	(32)	379	2,429	3,310

4. Segmental analysis (continued)

Balance Sheet

<i>as at 31 December 2007</i>	<i>Guernsey</i> £'000	<i>Bulgaria</i> £'000	<i>Cyprus & Malta</i> £'000	<i>Romania</i> £'000	<i>Turkey</i> £'000	<i>Total</i> £'000
Freehold investment property	–	3,969	–	3,969	16,998	24,936
Property, plant & equipment	–	–	–	33	163	196
Advances for fixed assets	–	–	–	23	5	28
Intangible assets	–	–	–	–	13	13
Deferred tax assets	–	–	–	–	148	148
Trade and other receivables	7	1,303	–	42	536	1,888
Tax assets	–	–	–	6	8	14
Cash and cash equivalents	1,065	177	4	53	6,709	8,008
Total assets	1,072	5,449	4	4,126	24,580	35,231
Current liabilities	(720)	(1,059)	(20)	(35)	(124)	(1,958)
Non-current liabilities	–	(87)	–	(143)	(9,306)	(9,536)
Total liabilities	(720)	(1,146)	(20)	(178)	(9,430)	(11,494)
Net assets/(liabilities)	352	4,303	(16)	3,948	15,150	23,737

<i>as at 31 March 2007</i>	<i>Guernsey</i> £'000	<i>Bulgaria</i> £'000	<i>Cyprus & Malta</i> £'000	<i>Romania</i> £'000	<i>Turkey</i> £'000	<i>Total</i> £'000
Freehold investment property	–	3,421	–	3,285	14,798	21,504
Property, plant & equipment	–	–	–	36	37	73
Intangible assets	–	–	–	–	15	15
Deferred tax assets	–	5	–	4	152	161
Trade and other receivables	67	485	2	26	179	759
Cash and cash equivalents	960	129	5	133	137	1,364
Total assets	1,027	4,040	7	3,484	15,318	23,876
Current liabilities	(390)	(7)	(10)	(48)	(80)	(535)
Non-current liabilities	–	(99)	–	(61)	(780)	(940)
Total liabilities	(390)	(106)	(10)	(109)	(860)	(1,475)
Net assets/(liabilities)	637	3,934	(3)	3,375	14,458	22,401

Notes to the Financial Statements (continued)

5. Directors' fees

	1 April 2007 to 31 December 2007 £'000	27 February 2006 to 31 March 2007 £'000
Charles Parkinson	19	27
Carol Goodwin	15	22
Hugh Ward	15	22
Richard Barnes	15	22
	64	93

No bonuses or pension contributions were paid or were payable on behalf of the Directors.

Details of the Directors' interests in the share capital are set out in the Report of the Directors on page 9.

6. Other operating expenses

	1 April 2007 to 31 December 2007 £'000	27 February 2006 to 31 March 2007 £'000
Custodian and settlement fees	–	5
Depreciation and amortisation (note 9 and note 10)	26	2
Directors' fees (note 5)	64	93
Auditors' remuneration	58	47
Nominated Adviser fees	42	15
Nominated Broker fees	7	15
Registrar fees	7	10
Legal and professional fees	67	95
Administration of subsidiaries	59	12
Finance costs	(19)	–
Other expenses	198	98
	509	392

7. Earnings per share – basic and fully diluted

The gain, in pence per Ordinary Share, is based on a profit of £1,370,000 (31 March 2007: £3,310,000) and on a weighted average number of 20,000,000 (31 March 2007: 20,000,000) Ordinary Shares in issue. There is no difference between the basic and fully diluted earnings per share.

8. Dividends

The majority of the Group's income in its second accounting period has been absorbed by its operating costs. The Company was in the process of refurbishing and renovating a number of its properties and thus no rental income was received on these. Taking account of the unrealised gain on revaluation of investment properties, the Group achieved an overall profit for the period of £1.4 million (31 March 2007: £3.3 million). On 20 July 2007, the Board announced an interim dividend for the period ended 31 March 2007 of 3.20p per Ordinary Share which was paid on 16 November 2007. The Board carefully considered the payment of a dividend for the period ended 31 December 2007. However, as the Ordinary Shares are currently trading at a 42% discount to the 31 December 2007 net asset value, it was decided that these funds could be better utilised by buying back shares to try to narrow the discount of the share price to net asset value. In the event that the Company is unable to repurchase shares in the market at a suitable discount, the Board will reconsider the payment of a dividend in respect of this period.

The Directors do not propose a final dividend for the period ended 31 December 2007 (31 March 2007: nil).

9. Intangible assets

During the period ended 31 March 2007 the Company purchased a trademark for Markiz Patisserie. The estimated useful economic life of the trade mark is fifteen years.

	<i>1 April 2007 to 31 December 2007 £'000</i>	<i>27 February 2006 to 31 March 2007 £'000</i>
<i>Cost</i>		
Brought forward	15	–
Additions	–	15
Carried forward	15	15
<i>Accumulated Amortisation</i>		
Brought forward	–	–
Provided during the period	(2)	–
Carried forward	(2)	–
Net book value	13	15

10. Property, plant and equipment

	<i>1 April 2007 to 31 December 2007 £'000</i>	<i>27 February 2006 to 31 March 2007 £'000</i>
<i>Cost</i>		
Brought forward	75	–
Additions	147	75
Carried forward	222	75
<i>Accumulated Depreciation</i>		
Brought forward	(2)	–
Provided during the period	(24)	(2)
Carried forward	(26)	(2)
Net book value	196	73

Notes to the Financial Statements *(continued)*

11. Freehold investment property

	<i>1 April 2007 to 31 December 2007</i>	<i>27 February 2006 to 31 March 2007</i>
	<i>£'000</i>	<i>£'000</i>
Brought forward	21,504	–
Additions	1,073	16,974
Movement in unrealised appreciation	1,931	4,559
Foreign exchange gain/(loss)	428	(29)
Carried forward	24,936	21,504
Cost	18,047	16,974
Unrealised gain	6,889	4,530
Fair value	24,936	21,504

In the opinion of the Directors and the Property Manager the fair value of the properties held at the period end is as detailed in the valuation report provided to the Directors.

Property assets are inherently difficult to value as there is no liquid market or pricing mechanism. As a result, valuations are subject to substantial uncertainty. This uncertainty may be accentuated in the Target Countries as there are fewer benchmarks available for valuation purposes than in, for example, Continental Europe. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the date of the valuation.

The Group invests primarily in US Dollars, Euros or local currency in the Target Countries. Although US Dollars, Euros and local currencies of the Target Countries are freely convertible into other currencies, exchange rate fluctuations and currency devaluation could have a material effect on the market value of the Group's property investments, which although expressed in Sterling above, are valued by DTZ Debenham Tie Leung in either US Dollars or Euros.

All investment properties were valued by qualified professional valuers working for DTZ Debenham Tie Leung, international property advisers, at fair value (see note 1h) as at 31 March 2007 and 31 December 2007 in accordance with the latest edition of the Royal Institution of Chartered Surveyors ("RICS") Appraisal and Valuation Manual. All such valuers are Chartered Surveyors, being members of RICS.

12. Investments in subsidiary undertakings

Details of the subsidiary undertakings held by the Company at 31 March 2007 were as follows:

	Registered	% of ordinary shares held	Principal Activity	Cost at 31 December 2007 £'000	Cost at 31 March 2007 £'000
Doğu Avrupa Gayrimenkul Yatırım ve Ticaret Limited Şirketi ("Doğu Avrupa")	Turkey	100%	Property investment	4,067	3,806
EEPF Susam Sokak Gayrimenkul ve Turizm Ticaret Limited Şirketi ("EEPF Susam Sokak")	Turkey	100%	Property investment	1,823	1,734
Gateway Properties SRL	Romania	100%	Property investment	–	–
Sarnia Eastern Property (Cyprus) Limited	Cyprus	100%	Investment holding	1	1
Sarnia Eastern Property (Cyprus) No 2 Limited	Cyprus	100%	Investment holding	1	1
Sarnia Eastern Property (Malta) Limited	Malta	100%	Investment holding	2	2
Sarnia Real Estate (Cyprus) Limited	Cyprus	100%	Investment holding	1	1
Southern Properties EOOD	Bulgaria	100%	Property investment	2	2
Southern Properties SRL	Romania	100%	Property investment	–	–
				5,897	5,547

Sarnia Eastern Property (Cyprus) Limited and Sarnia Real Estate (Cyprus) Limited each have 50% shareholdings in Southern Properties SRL and Gateway Properties SRL. During the period, the Company's 100% shareholdings in Southern Properties SRL and Gateway Properties SRL were transferred to Sarnia Eastern Property (Cyprus) Limited (50% of each) and Sarnia Real Estate (Cyprus) Limited (50% of each). All other companies are wholly (and directly) owned by the Company.

13. Loans to subsidiary undertakings

The Company has made loan facilities available to its subsidiary undertakings. Details of these are shown below:

31 December 2007	Interest-free loan £'000	Interest-bearing loan £'000	Total loan £'000	Accrued interest £'000	Interest for the period £'000	Interest rate %
Doğu Avrupa	347	2,719	3,066	860	640	18.0
EEPF Susam Sokak	1,955	784	2,739	132	108	18.0
Sarnia Eastern Property (Cyprus) Limited	12	–	12	–	–	n/a
Sarnia Eastern Property (Malta) Limited	7	7	14	1	1	LIBOR+3.0
Sarnia Real Estate (Cyprus) Limited	11	–	11	–	–	n/a
Sarnia Real Estate (Cyprus) No 2 Limited	3	–	3	–	–	n/a
Southern Properties EOOD	7	3,307	3,314	231	172	7.0
Southern Properties SRL	3,158	–	3,158	–	–	n/a
Loans to subsidiary undertakings at 31 December 2007	5,500	6,817	12,317	1,224	921	

Notes to the Financial Statements (continued)

13. Loans to subsidiary undertakings (continued)

<i>31 March 2007</i>	<i>Interest-free loan £'000</i>	<i>Interest- bearing loan £'000</i>	<i>Total loan £'000</i>	<i>Accrued interest £'000</i>	<i>Interest for the period £'000</i>	<i>Interest rate %</i>
Doğu Avrupa	276	3,793	4,069	170	170	18.0
EEPF Susam Sokak	1,864	583	2,447	16	16	18.0
Sarnia Eastern Property (Cyprus) Limited	4	–	4	–	–	n/a
Sarnia Eastern Property (Malta) Limited	6	7	13	–	–	LIBOR+3.0
Sarnia Real Estate (Cyprus) Limited	4	–	4	–	–	n/a
Sarnia Real Estate (Cyprus) No 2 Limited	3	–	3	–	–	n/a
Southern Properties EOOD	–	3,054	3,054	43	43	7.0
Southern Properties SRL	2,988	–	2,988	–	–	n/a
Loans to subsidiary undertakings at 31 March 2007	5,145	7,437	12,582	229	229	

The loans to Doğu Avrupa and EEPF Susam Sokak are repayable on 30 June 2008 and were made in Turkish Lira. The loan to Southern Properties EOOD is repayable on demand and is denominated in Euros.

The loan to Sarnia Eastern Property (Malta) Limited is repayable on demand and is denominated in Sterling.

14. Trade and other receivables

	<i>Group 31 December 2007 £'000</i>	<i>Group 31 March 2007 £'000</i>	<i>Company 31 December 2007 £'000</i>	<i>Company 31 March 2007 £'000</i>
VAT control account	840	193	–	–
Short term loans ^[1]	622	352	–	–
Other debtors and prepayments ^[2]	426	214	7	67
	1,888	759	7	67

^[1] The Bulgarian subsidiary, Southern Properties EOOD, has granted two loans to the company which is performing the reconstruction of 24 George Washington Street, Sofia. The loans will be closed upon delivery of the completed works, certified by an affirmative report of "Advisory Engineering Group" Limited, which has undertaken to perform the supervision of the project. The interest rates on the two loans are 3.4%, for the loan granted on 16 January 2007, and 4% on the loan granted on 20 July 2007.

^[2] Included in other debtors and prepayments is £331,300 in respect of the receivables for the decrease in the price of reconstruction of 24 George Washington Street, Sofia. It represents a reduction of the contract price due to the delay by the company executing the reconstruction. The management has performed analysis and considers that the recoverable amount of the receivables does not differ from the carrying amount as they will be offset against the Group's liabilities to the firm executing the construction, according to the contract for the purchase and construction of the investment property on Washington Street.

15. Trade and other payables

	Group 31 December 2007 £'000	Group 31 March 2007 £'000	Company 31 December 2007 £'000	Company 31 March 2007 £'000
Directors' fees	21	22	21	22
Management fee	102	41	102	41
Performance fee	476	241	476	241
Trade payables	1,059	–	–	–
Other payables and accruals	211	142	120	85
	1,869	446	719	389

16. Non-current liabilities

	Group 31 December 2007 £'000	Group 31 March 2007 £'000	Company 31 December 2007 £'000	Company 31 March 2007 £'000
Rents received in advance	166	72	–	–
Deferred tax liabilities (note 18)	621	868	–	–
Bank loans (note 19)	8,749	–	–	–
	9,536	940	–	–

17. Taxation

The taxation charge in the Consolidated Income Statement is made up as follows:

	1 April 2007 to 31 December 2007 £'000	27 February 2006 to 31 March 2007 £'000
Other taxes and duties charged overseas	20	72
Overseas corporate tax	20	30
Deferred taxation (note 18)	(377)	707
Withholding tax	92	20
	(245)	829

The following table provides a reconciliation of the Guernsey statutory tax rate to the effective rate on profit from operating activities:

	1 April 2007 to 31 December 2007 £'000	27 February 2006 to 31 March 2007 £'000
Net profit from operating activities	1,125	4,139
Company's Guernsey rate (as exempt from Guernsey tax)	–	–
Taxation	245	(829)
Effective tax rate	(22)%	20%

Notes to the Financial Statements (continued)

17. Taxation (continued)

	1 April 2007 to 31 December 2007	27 February 2006 to 31 March 2007
Company's Guernsey rate (as exempt from Guernsey tax)	0%	0%
Supplementary overseas taxes at higher rates: – Bulgaria	10%	10%
– Romania	16%	16%
– Turkey	20%	20%
Effective tax rate	(22)%	20%

The Company had been granted exemption from Guernsey taxation under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged an annual exemption fee which is currently £600.

Overseas corporate tax has arisen in:

- the Turkish subsidiary, EEPF Susam Sokak. Profits of TRY 2,515,656 (31 March 2007: TRY 516,735) have been taxed at 20% and then adjusted for disallowable expenses; and
- the Romanian subsidiary, Southern Properties SRL. Profits of 682,737 Leu (31 March 2007: TRY 405,336) have been taxed at 16% and then adjusted for disallowable expenses.

Corporate tax benefit has arisen in:

- the Turkish subsidiary, Doğu Avrupa, from a loss before tax of TRY 2,799,564 (31 March 2007: profit of TRY 1,789,926) before disallowable expenses; and
- The Bulgarian subsidiary, Southern Properties EOOD, from a loss before tax of BGN 473,000 (31 March 2007: loss of BGN 152,000) before disallowable expenses.

Other taxes and duties charged overseas relate to taxes imposed in the Turkish subsidiaries for expenses such as environment tax, withholding tax and stamp tax.

Withholding tax has been deducted from interest receivable in relation to the loan interest payable by the Turkish and Bulgarian subsidiaries at a rate of 10%.

18. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the items detailed in the table below:

	31 December 2007 £'000	31 March 2007 £'000
Deferred tax asset	148	161
Deferred tax liability	(621)	(868)
Net deferred tax liability	(473)	(707)

The movement in the net deferred tax liability for the period (excluding movements on foreign exchange rates) is £234,000. After negating the effect of movements in foreign exchange rates of £143,000, the deferred tax for the period was £377,000 (note 17).

The deferred tax assets and deferred tax liabilities at 31 December 2007 and 31 March 2007 are attributable as follows:

	<i>31 December</i> 2007 <i>Assets</i> £'000	<i>31 December</i> 2007 <i>Liabilities</i> £'000	<i>31 March</i> 2007 <i>Assets</i> £'000	<i>31 March</i> 2007 <i>Liabilities</i> £'000
Tax losses carried forward	288	–	161	–
Gains on investment property	68	(843)	–	(868)
Loans and borrowings	20	(8)	–	–
Trade and other payables	2	–	–	–
Total	378	(851)	161	(868)
Amount netted off	(230)	230	–	–
Deferred tax asset/(liability)	148	(621)	161	(868)

19. Bank Loans

On 18 December 2007, HSBC Bank plc (the "Bank") made available to the Company's two Turkish subsidiaries two loan facilities totalling US\$17,500,000 (US\$14,500,000 to Doğu Avrupa and US\$3,000,000 to EEPF Susam Sokak) which were drawn down on 19 December 2007 and are to be repaid at the end of five years from drawdown. Interest is payable at 2.35% per annum above the US\$ London interbank euro-currency deposit rate. The loan facilities contain financial and other covenants including, inter alia, that:

- i. During the first year after 18 December 2007, the loan to value ("LTV") of the properties (Turkish property only) charged to the Bank will not exceed 55%;
- ii. The LTV ratio after 18 December 2008 will not exceed 50%;
- iii. The interest cover ratio for the combined Turkish companies will not be less than:
 - 1:1 on the first quarterly payment date (18 March 2008);
 - 1.2:1 on the quarterly payment dates from 18 June to 18 December 2008; and
 - 1.35:1 on the quarterly payment dates from 18 March 2009 onwards.

The Company has complied with its financial covenants throughout the period. The Property Manager and Investment Adviser continue to monitor the loan covenants. Subject to Turkish property markets remaining at current levels, the Directors have no reason to believe that any breaches of the financial covenants will occur in the foreseeable future.

In line with the loan facilities, the Turkish properties have been charged as security to the Bank.

Notes to the Financial Statements (continued)

19. Bank Loans (continued)

The bank loan arrangement fees amounted to US\$148,750 (0.85% of the amounts drawn down). They have been deducted from the amount of the loan and are being amortised over the period of the loan.

	31 December 2007 £'000	31 March 2007 £'000
Loan draw down	8,784	–
Loan arrangement fees	(75)	–
Amortisation of loan arrangement fees in the period	1	–
Foreign exchange gain/(loss)	39	–
	8,749	–

20. Share Capital

	31 December 2007 £'000	31 March 2007 £'000
Authorised:		
200,000,000 Ordinary Shares of 1 pence each	2,000	2,000
Issued and fully paid:		
20,000,000 Ordinary Shares of 1 pence each	200	200

On 23 March 2006, the Company raised gross proceeds of £20 million (net proceeds of £19.1 million) through the issue of 20,000,000 Ordinary Shares of 1p each at 100p each. All the Ordinary Shares were admitted to trading on AIM, a market operated by the London Stock Exchange, on 23 March 2006.

On 23 March 2006, as stated in the Admission Document, the Company cancelled all of its share premium account (as approved by the Royal Court of Guernsey on 24 March 2006), transferring it to a distributable reserve.

The Company has the authority to utilise the distributable reserves to buy back up to 14.99% of the Ordinary Shares (2,998,000 Ordinary Shares) issued at the Placing for cancellation. In addition, the Company has the authority to purchase up to 10% of the Ordinary Shares in issue and hold them as Treasury Shares until a time when they are either re-issued or cancelled. No Shares were purchased for cancellation during the period.

21. Duration of the Company

At the Annual General Meeting of the Company to be held in 2013, a special resolution shall be proposed that the Company ceases to continue as an investment company. If that resolution is passed, the Directors are required to formulate proposals to put to Shareholders to reorganise, unitise or reconstruct the Company or to wind the Company up. If the resolution to cease being an investment company is not passed, a similar resolution will be proposed at every fifth Annual General Meeting thereafter.

22. Net asset value per Ordinary Share

The net asset value, in pence per Ordinary Share, is based on the net assets attributable to equity shareholders of £23,737,000 (31 March 2007: £22,401,000) and on 20,000,000 Ordinary Shares in issue at the end of the period.

23. Related parties

The relationship and transactions between the Group, Elysium, CNC and Active Property Investments Limited are disclosed in the Report of the Directors and note 3. In addition, on 15 October 2007 Elysium loaned the Company £100,000 for a period of one month. The loan bore interest at 1.0% over the Bank of England base rate and was repaid in full on 15 November 2007, after incurring interest of £556.

On 9 November 2007, HSBC Bank plc made available to the Company an overdraft facility for £1.0 million. Interest on the facility was charged at 1.5% over the Bank of England base rate. Elysium gave a guarantee to HSBC securing all liabilities of the Company to HSBC. This guarantee was rescinded and the overdraft facility was terminated when the Group drew down funds from its bank loans (see note 19).

The Directors are not aware of any ultimate controlling party.

The transactions between the Company and the subsidiary undertakings and loans and loan interest due to the Company from the subsidiaries are detailed in note 13.

24. Maturity of financial liabilities

The Group's only financial liabilities are its bank loans, details of which are disclosed in note 19. The bank loans are repayable between four and five years. The maturity of the Group's total liabilities at 31 December 2007 was as follows:

	<i>31 December 2007</i>	<i>31 March 2007</i>
	<i>£'000</i>	<i>£'000</i>
In one year or less	1,958	535
Between two and five years	9,536	940
	11,494	1,475

25. Analysis of assets and liabilities

The principal investment objective of the Group is to provide a high level of income and potential for significant capital growth by investing in property in a range of sectors in the major urban centres of Turkey, Romania, Bulgaria and the Ukraine. Consistent with that objective, the Group holds investment property. In addition, the Group holds cash and liquid resources as well as having creditors that arise directly from its operations.

The main price risks arising from the Group's assets are market price risk, liquidity risk, credit risk and foreign currency risk. For a more complete list of the risks facing the Group, please refer to the risk warning in the Admission Document.

The Board reviews and agrees policies for managing its risk exposure. These policies are summarised below and have remained unchanged during the period under review.

Market price risk

The Group's exposure to market price risk will mainly arise as a result of fluctuations in the value of the Group's portfolio of investment properties. The Board have contracted with CNC and Active Property Investments Limited to provide up to date information regarding the market in which the properties are invested. The properties are valued on a six monthly basis by independent property valuers DTZ Debenham Tie Leung in order that the Board can respond to any adverse effects on a timely basis. Further risks associated with the ownership of property are detailed below.

Notes to the Financial Statements (continued)

25. Analysis of assets and liabilities (continued)

Liquidity risk

The Group has invested in investment properties, which, by their nature, are illiquid. However, the Group maintains sufficient cash balances to meet its working capital requirements and has recently obtained bank financing (see note 19) to fund further purchases of investment properties.

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in connection with property leases, the investment of surplus cash and transactions where the Group sells properties with an element of deferred consideration.

Tenant rent payments are monitored regularly and appropriate action is taken to recover monies owed or if necessary to terminate the lease. Deferred consideration terms are only agreed with counterparties approved by the Board or where some additional security is available. Funds may be invested and derivative transactions contracted only with banks and financial institutions with a high credit rating.

Interest rate risk

The Group's exposure to interest rate risk is on its cash balances. These are held on short term deposits earning interest at floating rates and the bank loans (see note 19).

The Company has additional exposure to interest rate risk arising from the loans to subsidiaries. The terms of these loans are disclosed in note 13.

Interest rate risk profile of assets and liabilities

<i>Assets as at 31 December 2007</i>	<i>Total as per</i>	<i>Fixed</i>	<i>Floating</i>	<i>Financial assets</i>
	<i>Consolidated</i>			<i>on which</i>
	<i>Balance</i>	<i>rate</i>	<i>rate</i>	<i>no interest</i>
	<i>Sheet</i>	<i>rate</i>	<i>rate</i>	<i>is received</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Non-current assets	25,321	–	–	25,321
Cash and cash equivalents	8,008	–	8,008	–
Other current assets	1,902	–	–	1,902
Total assets	35,231	–	8,008	27,223

<i>Assets as at 31 March 2007</i>	<i>Total as per</i>	<i>Fixed</i>	<i>Floating</i>	<i>Financial assets</i>
	<i>Consolidated</i>			<i>on which</i>
	<i>Balance</i>	<i>rate</i>	<i>rate</i>	<i>no interest</i>
	<i>Sheet</i>	<i>rate</i>	<i>rate</i>	<i>is received</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Non-current assets	21,753	–	–	21,753
Cash and cash equivalents	1,364	–	1,364	–
Other current assets	759	–	–	759
Total assets	23,876	–	1,364	22,512

	<i>Total as per Consolidated Balance Sheet £'000</i>	<i>Floating rate £'000</i>	<i>Financial liabilities on which no interest is paid £'000</i>
<i>Liabilities as at 31 December 2007</i>			
Bank loans (note 19)	8,749	8,749	–
Other non-current liabilities	787	–	787
Current liabilities	1,958	–	1,958
Total liabilities	11,494	8,749	2,745

	<i>Total as per Consolidated Balance Sheet £'000</i>	<i>Floating rate £'000</i>	<i>Financial liabilities on which no interest is paid £'000</i>
<i>Liabilities as at 31 March 2007</i>			
Other non-current liabilities	940	–	940
Current liabilities	535	–	535
Total liabilities	1,475	–	1,475

Foreign exchange risk

The Group conducts business in jurisdictions that will generate revenue, expenses and liabilities in currencies other than Sterling. As a result, the Group is subject to the effects of exchange rate fluctuations with respect to any of these currencies.

As stated in the Admission Document, the Group reports its consolidated results and its consolidated financial position in Sterling. The Group invests primarily in US Dollars, Euros or local currency in the Target Countries and accordingly, it generates revenue in currencies other than Sterling. The Company declares its dividends in Sterling and the amount received by Shareholders will be an amount in Sterling. As a consequence, Shareholders may experience fluctuations in the market price of their Ordinary Shares as a result of movements in the exchange rate between Sterling and US Dollars, Euros and any other local Target Country currencies. Such movements in the exchange rate may also adversely affect the net asset value of the Group and the amount of dividends paid. In addition, the amount of any dividends declared by the Company will be determined based on the results of the Group's operations.

Although US Dollars, Euros and local currencies of the Target Countries are freely convertible into other currencies, exchange rate fluctuations and currency devaluation could have a material effect on the value of the Group's property investments, which will be expressed in Sterling.

As stated in the Admission Document, on an on-going basis, the Group does not intend to hedge the exchange rate risk between Sterling, and US Dollars, Euros and local currencies in the Target Countries. The Group has investment property and rental agreements denominated in currencies other than Sterling (the functional and presentational currency).

Notes to the Financial Statements *(continued)*

25. Analysis of assets and liabilities *(continued)*

Currency split

<i>as at 31 December 2007</i>	<i>Total</i> £'000	<i>GBP</i> £'000	<i>EUR</i> £'000	<i>US\$</i> £'000	<i>TRL</i> £'000	<i>BGN</i> £'000	<i>RON</i> £'000
<i>Assets:</i>							
Freehold investment property	24,936	–	7,938	16,998	–	–	–
Property, plant and equipment	196	196	–	–	–	–	–
Advances for fixed assets	28	–	–	5	–	–	23
Intangible assets	13	13	–	–	–	–	–
Deferred tax assets	148	–	–	–	148	–	–
Trade and other receivables	1,888	7	954	31	504	350	42
Tax assets	14	–	–	–	8	–	6
Cash and cash equivalents	8,008	1,063	184	83	6,626	–	52
Total assets	35,231	1,279	9,076	17,117	7,286	350	123
<i>Liabilities:</i>							
Trade and other payables	(1,869)	(667)	(1,078)	(17)	(49)	(23)	(35)
Overseas corporate tax	(89)	–	–	–	(89)	–	–
Rents received in advance	(166)	–	–	(166)	–	–	–
Deferred tax liabilities	(621)	–	–	–	(391)	(87)	(143)
Bank loans	(8,749)	–	–	(8,749)	–	–	–
Total liabilities	(11,494)	(667)	(1,078)	(8,932)	(529)	(110)	(178)
Net assets/(liabilities)	23,737	612	7,998	8,185	6,757	240	(55)
Net exposure to currency		2.6%	33.7%	34.4%	28.5%	1.0%	(0.2)%

<i>as at 31 March 2007</i>	<i>Total</i> £'000	<i>GBP</i> £'000	<i>EUR</i> £'000	<i>US\$</i> £'000	<i>TRL</i> £'000	<i>BGN</i> £'000	<i>RON</i> £'000
<i>Assets:</i>							
Freehold investment property	21,504	–	6,705	14,799	–	–	–
Property, plant and equipment	73	73	–	–	–	–	–
Advances for fixed assets	–	–	–	–	–	–	–
Intangible assets	15	15	–	–	–	–	–
Deferred tax assets	161	–	–	–	156	5	–
Trade and other receivables	759	68	488	1	174	–	28
Tax assets	–	–	–	–	–	–	–
Cash and cash equivalents	1,364	960	267	50	87	–	–
Total assets	23,876	1,116	7,460	14,850	417	5	28
<i>Liabilities:</i>							
Trade and other payables	(446)	(390)	(17)	–	(14)	–	(26)
Overseas corporate tax	(89)	–	–	–	(67)	–	(22)
Rents received in advance	(72)	–	–	(72)	–	–	–
Deferred tax liabilities	(868)	–	–	–	(707)	(99)	(61)
Bank loans	–	–	–	–	–	–	–
Total liabilities	(1,475)	(390)	(17)	(72)	(788)	(99)	(109)
Net assets	22,401	726	7,443	14,778	(371)	(94)	(81)
Net exposure to currency		3.2%	33.2%	66.0%	(1.6)%	(0.4)%	(0.4)%

Sensitivity analysis

A 5% weakening/strengthening of Sterling against each currency at 31 December would have increased/(decreased) the net assets and the profit for the period by the amounts shown below. This analysis assumes that all other variables remain constant and that any change in foreign exchange rates would not affect the prices of the properties.

The effect on equity of a weakening of Sterling by 5% against each currency:

	<i>31 December 2007</i> £'000	<i>31 March 2007</i> £'000
Euro	421	392
US Dollar	431	778
Turkish Lira	355	(20)
Bulgarian Lev	13	(5)
Romanian Leu	(3)	(4)
Total	1,217	1,141

Notes to the Financial Statements (continued)

25. Analysis of assets and liabilities (continued)

The effect on equity of a strengthening of Sterling by 5% against each currency:

	31 December 2007 £'000	31 March 2007 £'000
Euro	(381)	(355)
US Dollar	(390)	(704)
Turkish Lira	(322)	18
Bulgarian Lev	(11)	4
Romanian Leu	3	4
Total	(1,101)	(1,033)

In order to manage the Group's exposure to foreign exchange risk, rather than purchase properties in local currency; the Group has agreed prices for the properties and subsequently values the properties in either US Dollars or Euros. However, all payments for the properties are made in the relevant local currency, namely the Bulgarian Lev, Romanian Leu or Turkish Lira, at the relevant exchange rates at the time of payment. The same process is used in respect of rental agreements. The Board believes that this removes some of the volatility of and reduces the foreign exchange exposure that may be experienced with the less stable local currencies, namely the Bulgarian Lev, Romanian Leu, and Turkish Lira. The accounts prepared by the Maltese and Cypriot subsidiaries are prepared in Sterling.

Possible adverse economic and political conditions

The financial operations of the Group may be adversely affected by general economic conditions and particularly by economic conditions in the Target Countries. The returns that are likely to be achieved on an investment in property or land in the Target Countries will be materially affected by the political and economic climate in Eastern Europe, particularly in the Target Countries. In particular, changes in the rates of inflation and interest rates in the Target Countries may affect the income generated by, and capital value of, the Property Portfolio.

The property and land markets in which the Group invests are relatively immature and the economies of the Target Countries are not as fully developed as those in Western Europe. Further, those countries carry risks of political, legal and economic instability, which could adversely affect the Group's results or operations. With any investment in a foreign country there exists the risk of adverse political or regulatory developments including, but not limited to, nationalisation, confiscation without fair compensation, terrorism, war or currency restrictions. The latter may be imposed to prevent capital flight and may make it difficult or impossible to exchange local currency into foreign currency or to repatriate foreign currency.

Further, deterioration in the Western European economies can be expected to have an adverse effect on the economies of the Target Countries and potentially on property values and the level of rents in the Target Countries.

Risks of property ownership

Investments in property may be difficult, slow or impossible to realise. The Ordinary Shares will be subject to the general risks incidental to the ownership of real or heritable property, including changes in the supply of or demand for competing investment properties in an area, changes in interest rates and the availability of mortgage funds, changes in property tax rates and landlord/tenant or planning laws, credit risks of tenants and borrowers and environmental factors. The marketability and value of any properties owned by the Group will, therefore, depend on many factors beyond the control of the Group and there is no assurance that there will be either a ready market for any properties held by the Group or that such properties will be sold at a profit or will yield a positive cash flow.

Changes in law relating to foreign ownership of property in any of the jurisdictions in which the Group invests might also have an adverse effect on the net returns from the Property Portfolio.

Property investment risk

The performance of the Group could be adversely affected by a downturn in the property market in terms of capital value or weakening of rental markets. In the event of default by a tenant, the Group may suffer a rental shortfall and incur additional costs including legal expenses and costs of maintaining, insuring and re-letting the property. Any future property market recession could materially adversely affect the value of the properties.

Returns from an investment in property depend largely upon the amount of rental income generated from the property and the expenses incurred in the development or redevelopment and management of the property, as well as changes in its market value.

Rental income and the market value for properties are generally affected by overall conditions in the local economy, such as growth in GDP, employment trends, inflation and changes in interest rates. Changes in GDP may also impact employment levels, which in turn may impact demand for premises, especially for office space for commercial enterprises. Furthermore, movements in interest rates may also affect the cost of financing for real estate companies.

Both rental income and property values may also be affected by other factors relevant to the real estate market, such as competition from other property owners and developers, the perceptions of prospective tenants on the attractiveness, convenience and safety of properties, the inability to collect rents because of the bankruptcy or insolvency of tenants or otherwise, the periodic need to renovate, repair or re-lease space and the costs thereof, the costs of maintenance and insurance, and increased operating costs. In addition, the owner must meet certain significant expenditures, including operating expenses, even if the property is vacant.

Investments in property are relatively illiquid and more difficult to realise than investments in equities or bonds.

26. Capital commitments

On 15 December 2006, a wholly-owned subsidiary, Southern Properties EOOD, purchased 24 George Washington Street in Sofia for EUR 4.8 million, although only EUR 1.4 million was paid on completion. A further EUR 520,000 was paid to the developer on 16 January 2007 with the remaining EUR 2.88 million to be paid on completion of the building contract. There was an overrun on the building contract on which the Group is entitled to damages equivalent to EUR 40,000 per month.

The Group has liabilities connected with an intermediary services agreement for the acquisition of the Bulgarian property according to the agreement with NG Capital Ltd, amounting to EUR 46,560. The same amount is payable upon successful completion of the purchase and reconstruction agreement. No amount is due before completion has been achieved, which also includes completion of additional works to the investment property, according to the purchase agreement of the property dated 15 December 2006.

According to the 15 December 2006 purchase agreement between the Group and Simeonov Consult EOOD, in addition to the sum already paid for the acquisition of 24 George Washington Street, Sofia, which amounted to EUR 1.4 million, the Group was to pay additionally EUR 3.04 million for the completion works connected with the investment property, provided that the project was completed satisfactorily and on time. This commitment was amended during 2007 by agreements between the parties regarding loans and penalties and is subject to final renegotiation between the developer and the Group. This is expected to be settled against the receivables from the developer (see note 14) with the remainder to be paid in cash.

All contracted capital commitments have been provided for.

Notes to the Financial Statements *(continued)*

27. Subsequent events

Following a tax revision act in Bulgaria, the Group was reimbursed VAT of BGN 503,849 (£189,688) for the period from April to July 2007. The recovered tax credit was in respect of the VAT paid on the purchase of 24 George Washington Street, Sofia. The amount was received by the Group on 9 January 2008.

Following a tax act in Bulgaria, the Group recovered VAT of BGN 145,601 (£54,816) for the period from August to November 2007. The recovered tax credit was for the VAT paid to Simeonov Consult EOOD for the reconstruction of the building on 24 George Washington Street. The amount was received by the Group on 27 February 2008.

On 14 February 2008, the Group was granted permission for use of the building on 24 George Washington Street, Sofia.

28. Company Income Statement

	Note	1 April 2007 to 31 December 2007 £'000	27 February 2006 to 31 March 2007 £'000
Income			
Interest receivable on inter-company loans	13	921	229
Bank interest receivable		14	579
Gain on foreign exchange movements		1,455	38
Total income		2,390	846
Expenses			
Administrator's fees	3	(94)	(131)
Management fees	3	(295)	(340)
Performance fee	3	(256)	(241)
Other operating expenses		(217)	(209)
Total expenses		(862)	(921)
Profit/(loss) before taxation		1,528	(75)
Taxation		(92)	(20)
Profit/(loss) for the period		1,436	(95)

29. Company Statement of Changes in Equity

<i>For the period from 1 April 2007 to 31 December 2007</i>	Note	Share capital £'000	Share premium £'000	Distributable reserves £'000	Non- distributable reserves £'000	Total £'000
Net assets at 31 March 2007		200	–	19,377	(581)	18,996
Profit/(loss) for the period		–	–	1,987	(551)	1,436
Dividends paid	8	–	–	(640)	–	(640)
Net assets at 31 December 2007		200	–	20,724	(1,132)	19,792

<i>For the period from 26 February 2006 to 31 March 2007</i>	Note	Share capital £'000	Share premium £'000	Distributable reserves £'000	Non- distributable reserves £'000	Total £'000
Gross proceeds of placing	20	200	19,800	–	–	20,000
Issue costs	20	–	(909)	–	–	(909)
Cancellation of share premium account	20	–	(18,891)	18,891	–	–
Profit/(loss) for the period		–	–	486	(581)	(95)
Net assets at 31 March 2007		200	–	19,377	(581)	18,996

30. Company Balance Sheet

	Note	31 December 2007 £'000	31 March 2007 £'000
Non-current assets			
Investments in subsidiary undertakings	12	5,897	5,547
Current assets			
Loan to subsidiary undertakings	13	12,317	12,582
Interest receivable from subsidiary undertakings	13	1,224	229
Trade and other receivables	14	7	67
Cash and cash equivalents		1,066	960
		14,614	13,838
Total assets		20,511	19,385
Current liabilities			
Trade and other payables	15	(719)	(389)
Net assets		19,792	18,996
Capital and reserves			
Called-up share capital	20	200	200
Share premium	20	–	–
Distributable reserves		20,724	19,377
Non-distributable reserves		(1,132)	(581)
Total equity shareholders' funds		19,792	18,996

Notes to the Financial Statements (continued)

31. Company Cash Flow Statement

	Note	1 April 2007 to 31 December 2007 £'000	27 February 2006 to 31 March 2007 £'000
Profit/(loss) for the period		1,436	(95)
Decrease/(increase) in trade and other receivables		60	(67)
Increase in interest receivable from subsidiary undertakings		(995)	(229)
Increase in trade and other payables		330	389
Gain on foreign exchange movements		(1,353)	–
Net cash outflow from operating activities		(522)	(2)
Investing activities			
Investment in subsidiary undertakings	12	(350)	(5,547)
Loans to subsidiary undertakings	13	(464)	(12,582)
Repayment of loans to subsidiary undertakings	13	2,082	–
Net cash inflow/(outflow) from investing activities		1,268	(18,129)
Financing activities			
Dividends paid on Ordinary Shares	8	(640)	–
Loan received from Manager	23	100	–
Repayment of loan from Manager	23	(100)	–
Issue of shares		–	20,000
Share issue costs		–	(909)
Net cash (outflow)/inflow from financing activities		(640)	19,091
Increase in cash and cash equivalents		106	960
Cash and cash equivalents at beginning of period		960	–
Increase in cash and cash equivalents		106	960
Cash and cash equivalents at end of period		1,066	960

32. Fair values

The fair value of interest-bearing loans and borrowings is calculated based on discounted expected future principal and interest cash flows. For receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. The fair value of the deferred tax liabilities is linked to the fair value of the freehold investment property and is thus carried at its fair value. All other receivables/payables are discounted to determine the fair value.

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	31 December 2007 Carrying amount £'000	31 December 2007 Fair value £'000	31 March 2007 Carrying amount £'000	31 March 2007 Fair value £'000
Freehold investment property	24,936	24,936	21,504	21,504
Property, plant and equipment	196	196	73	73
Advances for fixed assets	28	28	–	–
Intangible assets	13	13	15	15
Deferred tax assets	148	148	161	161
Trade and other receivables	1,888	1,888	759	759
Tax assets	14	14	–	–
Cash and cash equivalents	8,008	8,008	1,364	1,364
Trade and other payables	(1,869)	(1,869)	(446)	(446)
Overseas corporate tax	(89)	(89)	(89)	(89)
Rents received in advance	(166)	(158)	(72)	(69)
Deferred tax liabilities	(621)	(621)	(868)	(868)
Bank loans	(8,749)	(8,817)	–	–
	23,737	23,677	22,401	22,404
Unrecognised (loss)/gain		(60)		3

33. Operating leases

The Group leases out its investment property under operating leases. At 31 March 2007, the future minimum lease receipts under non-cancellable leases were as follows:

	31 December 2007 £'000	31 March 2007 £'000
Less than one year	643	424
Between one and five years	3,331	1,039
More than five years	–	–
	3,974	1,463

The total above comprises the total contracted rent receivable as at 31 March 2007.

Notes to the Financial Statements *(continued)*

34. Capital management policy and procedures

The Group's capital management objectives are:

- to ensure that it will be able to continue as a going concern; and
- to maximise its total return primarily through the capital appreciation of its investments.

The Board, with the assistance of the Manager, Property Manager and Investment Adviser, monitors and reviews the structure of the Group's capital on an ad hoc basis. This review includes:

- the current and future levels of gearing;
- the need to buy back Ordinary Shares for cancellation or to be held in treasury, which takes account of the difference between the net asset value per Ordinary Share and the Ordinary Share price; and
- the current and future dividend policy.

The Group's objectives, policies and processes for managing capital remain unchanged from the previous year.

As at 31 December 2007, the Group held bank loans and of £8,749,000 (US\$17.5 million). As disclosed in the Consolidated Balance Sheet, the total equity Shareholders' funds is £23,737,000 (31 March 2007: £22,401,000).

Directors

Charles Parkinson (aged 54) (Chairman)

Charles Parkinson is a Deputy in the States of Guernsey. A graduate of Cambridge, he is a Fellow of the Institute of Chartered Accountants in England and Wales and a qualified barrister. He was the founder and, until 2004, chairman of the Guernsey office of PKF, having started his career as a chartered accountant at KPMG in London. Mr Parkinson is the chairman or a director of four companies listed on the London Stock Exchange, including two property investment companies. Mr Parkinson is a resident of Guernsey.

Carol Goodwin (aged 64)

Carol Goodwin has extensive experience in the finance industry and has held senior executive positions in several European and North American banks, managing businesses in London, Toronto, Montreal, Amsterdam, Nassau and Guernsey. She is currently a director of Investec Bank (Channel Islands) Limited where she was managing director between 1994-1996 and 1998-2001. Ms. Goodwin is vice chairman of another Guernsey bank and is also a non-executive director of a number of financial services entities including several listed and unlisted investment funds. Ms. Goodwin is a Fellow of the Institute of Canadian Bankers, a Trust and Estate Practitioner and a Chartered Director of the Institute of Directors. Ms. Goodwin is a resident of Guernsey.

Hugh Ward (aged 55)

Hugh Ward has worked within the financial services industry since 1972 and held senior executive positions with a number of major investment management companies. Prior to 2002 he was chief executive officer of Invesco UK Limited, a subsidiary of AMVESCAP Limited and was previously chairman and managing director of Capital House International Investment Management Limited in Jersey. He now acts as a consultant or non-executive director for a number of companies within the financial services, property and computer software industries. Mr Ward is a member of the Securities Institute and is a resident in Jersey.

Richard Barnes (aged 45)

Richard Barnes is a principal of chartered surveyors, BDP Barnes Daniels and Partners, and specialises in Channel Island commercial property, valuation, consultancy, investment and development. Prior to this, Mr Barnes was a manager of the Mourant de Feu & Jeune Property Department (1995-1997) and a director of ATIS REAL Weatheralls Jersey (1997-2001) where he was director of a number of offshore property structures administered on behalf of clients. Mr Barnes has over 20 years' experience of working in the real estate sector and has also held posts at Hillier Parker, Vigers and Bernard Thorpe. Mr Barnes is chairman of Invesco Property Income Trust and past chairman of the Jersey branch of the Royal Institution of Chartered Surveyors and often acts as an independent expert and arbitrator in Jersey and Guernsey third party disputes. Mr Barnes is a resident of Jersey.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the second ANNUAL GENERAL MEETING of EASTERN EUROPEAN PROPERTY FUND LIMITED will be held at No. 1 Le Truchot, St Peter Port, Guernsey GY1 3JX on 11 September 2008 at 10.00am for the following purposes:

As ordinary business:

Ordinary Resolution 1

To receive and, if thought fit, to accept the reports of the Directors and Auditors and the audited financial statements for the period ended 31 December 2007.

Ordinary Resolution 2

To re-appoint KPMG Channel Islands Limited as Auditors and to authorise the Directors to agree their remuneration.

Ordinary Resolution 3

To re-elect Carol Goodwin, who offers herself for re-election, as a Director.

Ordinary Resolution 4

To approve the Group's investment strategy (in accordance with AIM Rules) as follows:

"The investment objective of the Group is to provide Shareholders with a high level of income and the potential for significant capital growth by investing in property in the major urban centres of Turkey, Romania, Bulgaria and the Ukraine (the "Target Countries").

The Group invests in a range of office, retail industrial and residential properties in the Target Countries. The Group will primarily seek to invest in income-producing properties that also offer potential for significant capital growth in or around major urban centres in the Target Countries. The Group's primary policy will be to purchase existing properties, including properties in need of refurbishment or renovation. The Group may also invest in the construction and development, renovation or refurbishment of properties, either wholly owned by the Group or in conjunction with other investors."

As special business:

Ordinary Resolution 5

That the Company be and is hereby generally and unconditionally authorised in accordance with The Companies (Purchase of Own Shares) Ordinance 1998 to make market purchases, as defined in that Ordinance, of and cancel its Ordinary Shares of 1p each, provided that:

- (i) the maximum number of Ordinary Shares hereby authorised to be purchased shall be 2,998,000;
- (ii) the minimum price which may be paid for an Ordinary Share shall be 1p;
- (iii) the maximum price which may be paid for an Ordinary Share shall be an amount equal to 105% of the average of the middle market quotations for an Ordinary Share taken from and calculated by reference to the London Stock Exchange AIM Daily Official List for the five business days immediately preceding the date on which the Ordinary Share is purchased;
- (iv) the price paid per Ordinary Share shall be less than the net asset value per Ordinary Share;
- (v) the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2009, unless the authority is renewed prior to such time; and
- (vi) the Company may make a contract to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Ordinary Shares pursuant to any such contract.

By order of the Board

Registered office:
No. 1 Le Truchot
St Peter Port
Guernsey
GY1 3JX

Elysium Fund Management Limited, *Secretary*

1 May 2008

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his or her stead. A proxy need not also be a member of the Company. To be effective, forms of proxy must be lodged with the Company's Secretary, Elysium Fund Management Limited, not less than 48 hours before the time appointed for holding the meeting. Lodgement of the form of proxy will not preclude a Shareholder from attending the meeting and voting in person.

Note:

The following documents will be available for inspection at the registered office of the Company during usual business hours on any weekday (except Saturdays, Sundays and public holidays) until the date of the meeting and at the place of the meeting for a period of 15 minutes prior to and during the meeting:

- a) A statement of Directors' interests in the share capital of the Company; and
- b) The Articles of Association.

Form of Proxy

For use at the ANNUAL GENERAL MEETING (Block capitals please)

I/We, the undersigned

Of

being a member/members of Eastern European Property Fund Limited, hereby appoint the Chairman of the meeting/

.....
as my/our proxy to vote for me/us on my/our behalf at No. 1 Le Truchot, St Peter Port, Guernsey, GY1 3JX on 11 September 2008 at 10:00am and at any adjournment thereof and at his discretion on any other matter arising at such meeting.

Signature Dated

Please indicate with an X in the spaces below how you wish your votes to be cast.

		For	Against	Abstain
Ordinary Resolution 1	To receive and, if thought fit, to adopt the reports of the Directors and Auditors and the audited financial statements for the period ended 31 December 2007.			
Ordinary Resolution 2	To re-appoint KPMG Channel Islands Limited as Auditors and to authorise the Directors to agree their remuneration.			
Ordinary Resolution 3	To re-elect Carol Goodwin, who offers herself for re-election as a Director.			
Ordinary Resolution 4	To approve the Group's investment strategy in accordance with the AIM Rules.			
Ordinary Resolution 5	To authorise the Company to buy back its own Shares.			

Notes

1. A member may appoint a proxy of his or her own choice. If such an appointment is made, delete the words 'the Chairman of the meeting' and insert the name of the person appointed proxy in the space provided.
2. If the appointor is a corporation, this form must be under its common seal or under the hand of some officer or attorney duly authorised in that behalf.
3. In the case of joint holders, the signature of any one holder will be sufficient, but the names of all joint holders should be stated.
4. If this form is returned without any indication as to how the person appointed proxy shall vote, he or she will exercise his or her discretion as to how he or she votes or whether he or she abstains from voting.
5. To be valid, this form must be completed and deposited at the office of the Company's Secretary not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.



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Affix
stamp
here

Elysium Fund Management Limited
PO Box 650
No. 1 Le Truchot
St Peter Port
Guernsey, GY1 3JX

First Fold

Second fold

Advisers

Manager, Administrator, Secretary and Registered Office

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No. 1 Le Truchot
St Peter Port
Guernsey
GY1 3JX
www.elysiumfundman.com

Investment Adviser

Active Property Investments Limited
22 Smith Street
St Peter Port
Guernsey
GY1 2JQ

Registrar

Capita Registrars (Guernsey) Limited
Landes du Marché Chambers
Vale
Guernsey
GY1 3TY

Custodian

Collins Stewart (CI) Limited
Landes du Marché Chambers
Vale
Guernsey
GY1 3TY

English Legal Adviser to the Group

Stephenson Harwood
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London
EC4M 8SH

Valuer

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London
W1A 5PZ

Property Manager

CNC Property Fund Management Limited
(formerly Collins Stewart Property Fund Management Limited)
2nd Floor, The Atrium
32 Church Road
Ashford
Middlesex
TW15 2UD
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